

FISCAL NOTE

Bill #: HB0361

Title: Decrease local cost share for regional water system

Primary Sponsor: Witt, J

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
State Special Revenue	\$168,250	\$99,250
Revenue:	\$0	\$0
Net Impact on General Fund Balance:	\$0	\$0

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Department of Natural Resources and Conservation

1. Earnings from the Treasure State Endowment Program (TSEP) regional fund are estimated to be \$1,404,000 in FY 2004 and \$1,670,000 in FY 2005.
2. Construction of Regional Water Systems that require state match in the 2005 biennium will be limited to connecting the existing Culbertson water treatment plant to Froid in FY 2004 and Froid to Medicine Lake in 2005.
3. In FY 2004 the federal share of construction will be \$2,133,000. The non-federal share of construction will be \$673,000. The state and local share at a 1 to 1 match would be \$336,500 each. At a 3 to 1 match the state share would be \$504,750 and the local share would be \$168,250.
4. In FY 2005 the federal share of construction will be \$1,257,000. The total non-federal share of construction will be \$397,000. At a 1 to 1 match the state and local share would be \$198,500 each. At a 3 to 1 match the state share would be \$297,750 and the local share would be \$99,250.
5. Administrative appropriations from the TSEP regional account will be \$330,793 in FY 2004.
6. Administrative appropriations from the TSEP regional account will be \$329,230 in FY 2005.

Department of Commerce

7. HB 361 revises the amount of local match required to receive Treasure State Endowment (TSE) Regional Water System funds from a one to one ratio (\$1.00 local gets \$1.00 TSE), to a one to three ratio (\$1.00

Fiscal Note Request HB0361, As Introduced

(continued)

- local gets \$3.00 TSE) and eliminates the provision that allows up to 25 percent of the local matching funds to be in the form of debt incurred by local government entities included in the regional water system.
8. The TSE Regional Water System fund revenue through FY 2016 is expected to be approximately \$31.5 million. Under current law, the expected state share for the Dry Prairie and North Central water projects is estimated to be \$10 million each or \$20 million in total. Administrative costs at DNRC are estimated at approximately \$4.3 million through FY 2016 (\$330,011 x 13 years). Assuming all of the assumptions remain valid for the 13 years in question, the TSE Regional Water System fund would have approximately \$7.2 million remaining at the end of FY 2016.
 9. If the HB 361 provision is utilized that would allow the local share to be reduced by 25 percent, up to \$5 million more would be expended from the TSE Regional Water System fund, leaving approximately \$2.2 million remaining at the end of FY 2016.
 10. An additional regional water system project is in the early stages of being developed, the Musselshell project, which would likely be eligible for TSEP Regional Water System funding. Should the Musselshell project be authorized for funding, and assuming a total project cost of \$10 million split equally between the state and local governments, an additional \$5 million would be expended from the TSEP Regional Water System fund. If the 25 percent provision were to be utilized on that project, an additional \$1.25 million would be expended from the TSE Regional Water System fund. If this additional \$6.25 million were expended from the TSEP Regional Water fund, there would be approximately a \$4 million deficit in the fund at the end of FY 2016.
 11. Under HB 361, the TSEP Regional Water System fund revenue through FY 2016 would remain the same as in assumption 8 or \$31.5 million. The expected state share for the Dry Prairie and North Central water projects would be \$15 million each or \$30 million total. Administrative costs at DNRC would be approximately \$4.3 million through FY 2016 (\$330,011 x 13 years). The TSEP Regional Water System fund would have a \$2.8 million deficit at the end of FY 2016.
 12. Should the Musselshell project become eligible funding at a total project cost of \$10 million, with costs split as proposed in HB 361, an additional \$7.5 million would be expended from the TSEP Regional Water System fund, which would leave a \$10.3 million deficit in the fund at the end of FY 2016.
 13. No assumptions are made for inflation in this analysis.

FISCAL IMPACT:

Department of Natural Resources and Conservation

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<u>Expenditures:</u>		
Transfers	\$168,250	\$99,250
<u>Funding of Expenditures:</u>		
State Special Revenue (02)	\$168,250	\$99,250
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
State Special Revenue (02)	(\$168,250)	(\$99,250)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Passage and approval of HB 361 will decrease the local share and increase the state share of non-federal construction costs from a 1 to 1 split with the state to a 3 to 1 split, state and local. This will cut in half the cost of connecting to the regional water systems for the local governments involved.

Fiscal Note Request HB0361, As Introduced
(continued)

LONG-RANGE IMPACTS:

Department of Natural Resources and Conservation

1. The increase in state cost share may limit the total number of regional water systems that the fund can assist. In current statute the TSEP regional fund terminates in 2016. If that sunset remains, the increased cost share would leave little for other projects.
2. The increased state share for the North Central Regional Water Authority will be \$5.2 million over the life of the project. This would bring the state contribution up to total of \$15.7 million. The overall cost of the Rocky Boy's North Central Regional Water System is \$229 million.
3. The increased state share for the Dry Prairie Regional Water system will be \$4.6 million. This would bring the state contribution up to a total of \$13.9 million. The overall cost of the Fort Peck Regional Water System is \$220 million.
4. Under HB 361, the state cost share on both regional water projects will be \$29.6 million from the TSEP regional fund. Total earning from this fund by 2016, the sunset date, are estimated to be \$30 million.

Department of Commerce

5. Passage of HB 361 could leave the state with a deficit in the TSEP Regional Water System fund. If the state is not able to generate sufficient revenues within a biennium to cover the state's share of these water projects, it could be forced to sell bonds with the interest earnings from the TSEP Regional Water System Fund paying off those bonds. The amount of debt the state would incur selling bonds would increase the state's share of overall costs.
6. In order to sell bonds, the life of the TSEP Regional Water System Fund would probably have to be extended in order to have a revenue stream over an assumed 20-year period needed to re-pay the bonds. This would have to be repeated each year that a bond would have to be sold in order to ensure the TSEP Regional Water System Fund would produce a revenue stream over the life of the revenue bond.